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17149

RECORDATION NO. _____ FILED 1425

December 27, 1990

DEC 27 1990 -2 55 PM

INTERSTATE COMMERCE COMMISSION

MOTOR OPERATING UNIT

Dec 27 2 48 PM '90

Secretary
Interstate Commerce Commission
12th and Constitution Avenue, NW
Washington, D.C. 20423

Dear Secretary:

I have enclosed an original and one counterpart of the document described below to be recorded pursuant to Section 11303 of Title 49 of the U.S. Code.

This document is a Security Agreement, a primary document, dated as of November 15, 1990.

The names and addresses of the parties to the documents are as follows:

Owner:

Canonie Atlantic Co.
P. O. Box 312
Cape Charles, Virginia 23310

Affiliated Parties:

Accomack-Northampton Transportation
District Commission
P. O. Box 1027
Eastville, Virginia 23347

Eastern Shore Railroad, Inc.
P. O. Box 312
Cape Charles, Virginia 23310

Handwritten signature: Constance Carrey

HUNTON & WILLIAMS

Secretary
Interstate Commerce Commission
December 27, 1990
Page 2

Secured Party:

Virginia Resources Authority
909 East Main Street
Suite 707
Richmond, Virginia 23219

Please file the Security Agreement and index it under the names of the Owner, Affiliated Parties and Secured Party.

The required filing fee of \$15.00 is enclosed. Please return the original and any extra copies not needed by the Commission for recordation to Michael B. Barr, Esquire, 2000 Pennsylvania Avenue, N.W., 9th Floor, P. O. Box 19230, Washington, D.C. 20036.

A short summary of the document to appear in the index follows:

Security Agreement dated as of November 15, 1990, between Canonic Atlantic Co., Accomack-Northampton Transportation District Commission, Eastern Shore Railroad, Inc., and Virginia Resources Authority, covering one GP10 Locomotive (Identification No. 8066) and one GP10 Locomotive (Identification No. 8096).

Very truly yours,



Michael B. Barr

Interstate Commerce Commission
Washington, D.C. 20423

12/27/90

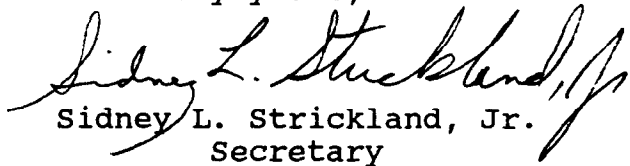
OFFICE OF THE SECRETARY

Michael E. Barr
Hunton & Williams
P.O. Box 19230
2000 Pennsylvania Avenue N.W.
Washington, D.C. 20036

Dear Sir:

The enclosed document(s) was recorded pursuant to the provisions of Section 11303 of the Interstate Commerce Act, 49 U.S.C. 11303, on 12/27/90 at 2:55pm, and assigned recordation number(s). 17149 & 17149-A

Sincerely yours,


Sidney L. Strickland, Jr.
Secretary

17149

RECEIVED BY _____ FILED 123

DEC 27 1990 2:55 PM

INTERSTATE COMMERCE COMMISSION

SECURITY AGREEMENT

dated as of November 15, 1990

between

**ACCOMACK-NORTHAMPTON TRANSPORTATION
DISTRICT COMMISSION**

and

CANONIE ATLANTIC CO.

and

EASTERN SHORE RAILROAD, INC.

and

VIRGINIA RESOURCES AUTHORITY

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SECURITY AGREEMENT

This SECURITY AGREEMENT (as amended, supplemented or modified from time to time, this "Security Agreement") is dated as of November 15, 1990, and is between ACCOMACK-NORTHAMPTON TRANSPORTATION DISTRICT COMMISSION, a body corporate and politic of the Commonwealth of Virginia, CANONIE ATLANTIC CO., a Virginia corporation which is wholly owned by the Commission and an instrumentality of the Commission ("Atlantic"), EASTERN SHORE RAILROAD, INC., a Virginia corporation which is wholly owned by Atlantic and an instrumentality of the Commission (the "Railroad"), and VIRGINIA RESOURCES AUTHORITY, a public body corporate and a political subdivision of the Commonwealth of Virginia (the "Authority").

RECITALS

A. The Commission and United Virginia Bank (now Crestar Bank (the "Bank")) entered into a Loan Agreement, dated September 30, 1981 (the "First Loan Agreement"), under which the Commission borrowed \$7,290,000 from the Bank evidenced by a note of the Commission dated September 30, 1981 (the "Original Note"), in the original principal amount of \$7,290,000.

B. The Commission and the Bank entered into an Amendment to Loan Agreement, dated January 12, 1984 (the "Amended Loan Agreement"), under which the repayment terms of the Original Note were restructured. The restructured indebtedness was evidenced by twenty renewal notes each dated January 20, 1984, with a stated maturity date of December 28, 2008 (the "Renewal Notes"), in the original aggregate principal amount of \$7,200,000.

C. On October 3, 1985, Canonie Inc., a Michigan corporation and former sole owner of the outstanding common stock of Atlantic ("Canonie"), and the Commission entered into a Purchase Agreement (the "First Purchase Agreement"), under which the Commission sold to Atlantic the Facilities (as defined in the hereinafter defined Loan Agreement) as the Facilities existed at that time.

D. As a condition to the approval by the Bank of the conveyance of the Facilities from the Commission to Atlantic, each of Atlantic, the Commission, Canonie, James G. Collins and the Bank entered into an Assumption Agreement, dated October 3, 1985 (the "Assumption Agreement"), under which Atlantic assumed certain of the Commission's obligations under the First Loan Agreement, the Amended Loan Agreement and related documentation.

E. The Commission and Atlantic had previously granted liens on certain portions of the Facilities to secure the Renewal Notes. Canonie and Atlantic previously guaranteed the payment of

the Renewal Notes to the Bank pursuant to an Unconditional Guaranty, dated September 30, 1981, the Unconditional Guaranty, dated January 12, 1984, a Guarantor's Consent each by Canonie and Atlantic, dated October 3, 1985, and an Unconditional Guaranty by the Commission, Atlantic and the Railroad, dated February 10, 1987 (the "1987 Guaranty") (collectively, the "Atlantic Guaranties").

F. Canonie and the Commission entered into a Purchase Agreement, dated February 3, 1987, as amended by an Amendment to Purchase Agreement, dated February 10, 1987 (collectively, the "Second Purchase Agreement"), under which Canonie sold to the Commission all of its right, title and interest in the outstanding common stock of Atlantic and the assets of Atlantic and the Railroad. As a condition precedent to such sale, the Second Purchase Agreement required the release by the Bank of Canonie's obligations (but not Atlantic's) pursuant to the Assumption Agreement, the Atlantic Guaranties and the related documents. The Bank agreed to this under the Second Amended Loan Agreement, dated as of February 10, 1987 (the "Second Loan Agreement"), between the Bank, the Commission, Atlantic and the Railroad.

G. As a condition precedent to its approval of the transactions contemplated by the Second Purchase Agreement, the Bank required the entry of the Commission, Atlantic and the Railroad into the Second Loan Agreement, the granting by Atlantic and the Railroad of liens on certain collateral and the execution by the Railroad of the 1987 Guaranty, under which the Railroad unconditionally guaranteed the payment of the Renewal Notes and the performance by the Commission and Atlantic of their obligations under the related documentation.

H. The Authority intends to issue its Railway Transportation Revenue Bonds, 1990 Series (the "Authority Bonds"), in the original aggregate principal amount of \$6,000,000, under an Indenture of Trust, dated the same date as this Agreement (the "Indenture"), between the Authority and Sovran Bank, N.A., as trustee (the "Trustee"). The Authority will use the proceeds of the Authority Bonds (i) to make a loan to and to acquire the Local Bonds (as defined below) of the Commission, (ii) to fund in part a debt service reserve fund for the Authority Bonds, and (iii) to pay the issuance costs of the Authority Bonds.

I. The Commission intends to issue and sell and the Authority desires to purchase the Accomack-Northampton Transportation District Commission, Railway Transportation Bonds, 1990 Series, in the original aggregate principal amount of \$6,000,000 (the "Local Bonds"). The Commission intends to use the proceeds of the Local Bonds, along with other available funds, (i) to finance and refinance certain Facility Costs (as

defined in the hereinafter defined Loan Agreement) of its Facilities by refunding and discharging the outstanding principal amount of and interest on the Renewal Notes and paying the issuance costs of the Local Bonds and (ii) to fund a debt service reserve fund.

J. To induce the Authority to purchase the Local Bonds, the Commission, Atlantic and the Railroad are entering into this Security Agreement.

NOW, THEREFORE, for valuable consideration, the parties agree as follows:

ARTICLE I DEFINITIONS

Section 1.1. Defined Terms. All capitalized terms in this Security Agreement shall have the respective meanings given them in Article I of the Indenture and in Article I of the Loan Agreement, dated as of November 15, 1990 (the "Loan Agreement"), between the Authority, the Commission, Atlantic and the Railroad, unless it is otherwise defined below or the context otherwise requires:

"Collateral" has the meaning assigned to it in Section 2.1 of this Security Agreement.

"Event of Default" has the meaning set forth in Section 5.1.

"ICC" means the United States Interstate Commerce Commission or any other agency succeeding to its functions under 49 U.S.C. § 11303, as amended.

"ICC Regulations" means the regulations of the ICC governing the recordation of documents with the ICC which are currently set forth in 49 CFR Part 1177, as the same may be amended, modified or supplemented from time to time.

"Locomotives" means the locomotives that constitute a part of the Rolling Stock and all replacements therefor.

"Proceeds" means all proceeds, including (i) whatever is received upon any collection, exchange, sale or other disposition of any of the Collateral and any property into which any of the Collateral is converted, whether cash or non-cash, (ii) any and all payments or other property (in any form whatsoever) made or due and payable on account of any insurance, indemnity, warranty or guaranty payable to the Commission, Atlantic or the Railroad with respect to any of the Collateral, (iii) any and all payments (in any form whatsoever) made or due and payable in connection with any requisition, confiscation, condemnation, seizure or forfeiture of all or any part of the Collateral by any

governmental body, authority, bureau or agency (or any person, corporation, agency, authority or other entity acting under color of any governmental authority) and (iv) any and all other amounts from time to time paid or payable under or in connection with any of the Collateral.

"Rolling Stock" means two locomotives described as follows (a) One (1) GP10 Locomotive (Identification No. 8066); and (b) One (1) GP10 Locomotive (Identification No. 8096), and all replacements therefor including: (i) all additions to, substitutions for, replacements of or accessions to any of the foregoing; (ii) all attachments, components, parts (including spare parts) and accessories whether installed thereon or affixed thereto; and (iii) all fuel for any thereof.

"Secured Indebtedness" means all amounts due and all obligations of the Commission, Atlantic and the Railroad under the Local Bonds and the Local Bond Documents.

"UCC" means at any time the Uniform Commercial Code as the same may from time to time be in effect in the Commonwealth of Virginia; provided that, if, by reason of mandatory provisions of law, the validity or perfection of any security interest granted herein is governed by the Uniform Commercial Code as in effect in a jurisdiction other than Virginia then, as to the validity or perfection of such security interest, "UCC" shall mean the Uniform Commercial Code in effect in such other jurisdiction.

Section 1.2. UCC Definitions. The uncapitalized terms "account", "account debtor", "chattel paper", "contract right", "document", "warehouse receipt", "bill of lading", "document of title", "instrument", "inventory", "equipment", "general intangible", "money", "proceeds" and "purchase money security interest" as used in Section 1.1 or elsewhere in this Security Agreement have the meanings of such terms as defined in the UCC.

ARTICLE II SECURITY INTERESTS

Section 2.1. Grant of Security Interests. To secure the due and punctual payment and performance of all Secured Indebtedness in accordance with the terms thereof, howsoever created, arising or evidenced, whether direct or indirect, absolute or contingent, now or hereafter existing or due or to become due, and in order to induce the Authority to purchase the Local Bonds, the Commission, Atlantic and the Railroad hereby grant to the Authority a security interest in all of the Commission's, Atlantic's and the Railroad's right, title and interest in, to and under the following, whether now existing or hereafter acquired (all of which are herein collectively called the "Collateral"):

(i) all Rolling Stock;

(ii) all books, ledgers and records and all computer programs, tapes, discs, punch cards, data processing software, transaction files, master files and related property and rights (including computer and peripheral equipment) necessary or helpful in enforcing, identifying or establishing any item of Collateral; and

(iii) to the extent not otherwise included, all Proceeds and products of any or all of the foregoing, whether existing on the date hereof or arising hereafter; provided, however, that Proceeds shall not be subject to the security interest created hereunder after they are deposited in the Capital Improvement Fund established under the Loan Agreement.

Section 2.2. Continuing Liability of the Commission, Atlantic and the Railroad. Anything herein to the contrary notwithstanding, the Commission, Atlantic and the Railroad shall remain liable to observe and perform all the terms and conditions to be observed and performed by it under any contract, agreement, warranty or other obligation with respect to the Collateral, and shall do nothing to impair the security interests herein granted. The Authority shall not have any obligation or liability under any such contract, agreement, warranty or obligation by reason of or arising out of this Security Agreement or the receipt by the Authority of any payment relating to any Collateral nor shall the Authority be required to perform or fulfill any of the obligations of the Commission, Atlantic and the Railroad with respect to the Collateral, to make any inquiry as to the nature or sufficiency of any payment received by it or the sufficiency of the performance of any party's obligations with respect to any Collateral. Furthermore, the Authority shall not be required to file any claim or demand to collect any amount due or to enforce the performance of any party's obligations with respect to the Collateral.

Section 2.3. Release of Collateral.

(a) The Commission, Atlantic and the Railroad may sell or realize upon or transfer or otherwise dispose of Collateral only as permitted by Section 7.7 of the Loan Agreement, and the security interests of the Authority in such Collateral so sold, realized upon or disposed of (but not in the Proceeds arising from such sale, realization or disposition until deposited in the Capital Improvement Fund) shall cease immediately upon such sale, realization or disposition, without any further action on the part of Authority. The Authority, if requested in writing by the Commission, Atlantic or the Railroad but at the expense of the Commission, shall deliver to the purchaser or other transferee of any such Collateral a certificate stating that the Authority no

longer has a security interest therein, and such purchaser or other transferee shall be entitled to rely conclusively on such certificate for any and all purposes.

(b) Upon the payment in full of all of the Secured Indebtedness, the Authority will (as soon as reasonably practicable after receipt of notice from the Commission, Atlantic or the Railroad requesting the same but at the expense of the Commission) deliver to the Commission, Atlantic and the Railroad such instrument or instruments as are reasonably necessary to notify the ICC that the Authority no longer claims a security interest under this Security Agreement.

ARTICLE III REPRESENTATIONS AND WARRANTIES

The Commission, Atlantic and the Railroad represent and warrant that:

Section 3.1. Validity of Security Agreement; Consents. The execution, delivery and performance of this Security Agreement and the creation of the security interests provided for herein (i) are within the corporate power of the Commission, Atlantic and the Railroad, (ii) have been duly authorized by all necessary corporate action on behalf of the Commission, Atlantic and the Railroad, (iii) are not in contravention of any provision of the enabling act (if any), articles of incorporation or by-laws of the Commission, Atlantic and the Railroad, (iv) do not violate any law or regulation or any order or decree of any court or governmental instrumentality applicable to the Commission, Atlantic or the Railroad, (v) do not conflict with or result in a breach of, or constitute a default under, any indenture, mortgage, deed of trust, lease, agreement or other instrument to which the Commission, Atlantic or the Railroad is a party or by which it or any of its properties is bound, (vi) do not result in the creation or imposition of any lien, security interest or encumbrance upon any property of the Commission, Atlantic or the Railroad other than in favor of the Authority and (vii) do not require the consent or approval of any federal, state or local or regulatory governmental entity or other person other than those that have been obtained. This Security Agreement has been duly executed and delivered by the Commission, Atlantic and the Railroad and constitutes the legal, valid and binding agreement of the Commission, Atlantic and the Railroad enforceable against each of them in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforceability of creditors' rights generally and by general provisions of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 3.2. Title to Collateral. Atlantic is the sole owner of each item of the Collateral and has good and marketable title thereto, free and clear of any and all liens, mortgages, leases, security interests, conditional sales agreements or other encumbrances. Atlantic has good right and is lawfully authorized to encumber the Collateral. Except for Permitted Liens, the Collateral at all times shall be free from all Liens.

Section 3.3. Validity, Perfection and Priority of Security Interests.

(a) By complying with Section 4.1, the Commission, Atlantic and the Railroad will have created a valid and perfected security interest in favor of the Authority in all existing Collateral and in all identifiable Proceeds of such Collateral, which security interest would be prior to the claims of a trustee in bankruptcy under Section 544(a) of the United States federal Bankruptcy Code. Continuing compliance by the Commission with the provisions of Section 4.2 will also (i) create valid and perfected security interests in all Collateral acquired after the date hereof and in all identifiable Proceeds of such Collateral until the Proceeds are deposited in the Capital Improvement Fund and (ii) cause such security interests in all Collateral and in all Proceeds which are (A) identifiable cash Proceeds of Collateral covered by financing statements required to be filed hereunder and (B) identifiable Proceeds in which a security interest may be perfected by such filing under the UCC, in each case prior to the claims of a trustee in bankruptcy under the United States federal Bankruptcy Code.

(b) The security interests of the Authority in the Collateral rank first in priority. Other than financing statements or other similar documents perfecting the security interests or mortgage liens of the Authority, no financing statements, deeds of trust, mortgages or similar documents covering all or any part of the Collateral are on file or of record in any government office in any jurisdiction in which such filing or recording would be effective to perfect a security interest in such Collateral, nor is any of the Collateral in the possession of any person (other than the Commission) asserting any claim thereto or security interest therein.

**ARTICLE IV
COVENANTS**

The Commission, Atlantic and the Railroad covenant and agree with the Authority that until the payment in full of all Secured Indebtedness, the Commission, Atlantic and the Railroad will comply with the following.

Section 4.1. Perfection of Security Interests. The Commission will, at its expense, cause all filings and recordings and other actions specified on Schedule 1 to have been completed on or before the Issue Date. In addition, the Commission, Atlantic and the Railroad shall plainly, distinctly, permanently and conspicuously place or fasten upon each side of each Locomotive a legend bearing the following words in letters not less than one inch in height:

OWNERSHIP SUBJECT TO A SECURITY AGREEMENT
FILED WITH THE INTERSTATE COMMERCE COMMISSION

In case, during the continuance of this Security Agreement, any such legend shall at any time be painted over or otherwise made inconspicuous, removed, defaced or destroyed, the Commission, Atlantic and the Railroad shall immediately cause the same to be restored or replaced. The Commission, Atlantic and the Railroad will not allow the name of any person, association or corporation to be placed on any Locomotive as a designation which might be interpreted as indicating a claim of ownership thereof by any person, association or corporation other than the Authority or its assignee, but each such Locomotive may be lettered with the names or initials or other insignia customarily used by the Commission, Atlantic or the Railroad (as appropriate) on equipment of the same or a similar type.

On or before the Issue Date, the Commission, Atlantic and the Railroad shall place on each side of each Locomotive the appropriate road number of the Commission, Atlantic or the Railroad (as appropriate) (the "Road Number"). At all times thereafter, the Commission, Atlantic and the Railroad will cause each Locomotive to bear the number so assigned to it, and the Commission, Atlantic and the Railroad will not change or permit to be changed the number of any such Locomotive except in accordance with a statement of new number to be substituted therefor which previously shall have been filed with the Authority and filed, recorded or deposited in all public offices where it is necessary or desirable to record or file the same to perfect or maintain the perfection of the security interest granted hereunder.

Section 4.2. Further Actions.

(a) At all times after the date hereof, the Commission, Atlantic and the Railroad will, at their expense, comply with the following:

(i) they will submit this Security Agreement and any other documents or instruments as may be required, necessary or advisable to the Secretary of the ICC in Washington, D.C., 20423, all of which shall be marked "documents for recordation" and otherwise in

all respects shall comply in form and substance with the ICC Regulations;

(ii) as to all Proceeds, it will cause all UCC financing statements and continuation statements filed as required under this Security Agreement to include a statement or a checked box indicating that Proceeds of all items of Collateral described therein are covered; and

(iii) as to any amount payable under or in connection with any of the Collateral which shall be or shall become evidenced by any promissory note or other instrument, the Commission, Atlantic and the Railroad will immediately pledge and deliver such note or other instrument to the Authority as part of the Collateral, duly endorsed in a manner satisfactory to the Authority.

(b) The Commission, Atlantic and the Railroad will, from time to time and at its expense, execute, deliver, file or record such financing statements and other instruments pursuant to the Uniform Commercial Code and the ICC Regulations, applications for certificates of title and such other statements, assignments, instruments, documents, agreements or other papers and take any other action that may be necessary or desirable, or that the Authority may reasonably request, in order to create, preserve, perfect, confirm or validate the security interests, to enable the Authority to obtain the full benefits of this Security Agreement or to enable it to exercise and enforce any of its rights, powers and remedies hereunder, including, without limitation, its right to take possession of the Collateral, and will use its best efforts to obtain such waivers from landlords and mortgagees as the Authority may request.

(c) To the fullest extent permitted by law, the Commission, Atlantic and the Railroad authorize the Authority to sign and file financing and continuation statements and amendments thereto with respect to the Collateral without its signature thereon.

Section 4.3. Loan Agreement. The Loan Agreement contains certain covenants by the Commission, Atlantic and the Railroad with respect to maintenance, repair, insurance, taxes, damage, destruction and condemnation with respect to the Facilities (including the Rolling Stock) and which covenants have not been set forth herein. A copy of the Loan Agreement is available at the office of the Authority, and the provisions of the Loan Agreement are incorporated by reference in this Security Agreement.

Section 4.4. Fixtures. The Commission, Atlantic and the Railroad will not permit any Rolling Stock to become a fixture unless it shall have given the Authority at least ten days' prior written notice thereof and shall have taken all such action and delivered or caused to be delivered to the Authority all instruments and documents, including, without limitation, waivers and subordination agreements by any landlords and mortgagees, and filed all financing statements necessary or reasonably requested by the Authority, to preserve and protect the security interest granted herein and to effectuate or maintain the priority thereof against all persons.

Section 4.5. Maintenance of Records; Reports.

(a) The Commission, Atlantic and the Railroad each will keep and maintain at its own cost and expense complete books and records relating to the Collateral which are reasonably satisfactory to the Authority including, without limitation, a record of all payments received and all credits granted with respect to the Collateral and all of its other dealings with the Collateral. The Commission, Atlantic and the Railroad each will mark its books and records pertaining to the Collateral to evidence this Security Agreement and the security interests granted hereby. For the Authority's further security, the Commission, Atlantic and the Railroad agree that the Authority shall have a special property interest in all of such books and records pertaining to the Collateral and the Commission, Atlantic and the Railroad each shall deliver and turn over any such books and records to the Authority or to its representatives at any time on demand of the Authority.

(b) On or before July 1 of each year (commencing July 1, 1991) and on such other dates as the Authority may from time to time reasonably request, the Commission, Atlantic and the Railroad will provide the Authority with an accurate report stating as of a recent date (not exceeding a date 120 days preceding the date of such report): (i) (A) the Road Numbers of all Locomotives which as of the date of such report are subject to the lien of this Security Agreement, (B) the Road Numbers of all Locomotives that have become worn out, obsolete, lost, stolen, destroyed, taken, irreparably damaged or rendered permanently unfit for use since the date of the previous report (or since the date hereof in case of the first such report), (C) the Road Numbers of all Locomotives being repaired or awaiting repairs, the nature and extent of the proposed repairs and the estimated date of return of such Locomotives to service and (D) the Road Numbers of all Locomotives that have been requisitioned, taken over or nationalized by any governmental authority since the date of the previous report, (ii) that all Locomotives (other than those specified in clauses (B), (C) and (D) in clause (i) above) have been maintained in accordance with the requirements of this Security Agreement and are fully serviceable, (iii) that the legend placed on each Locomotive as required by Section 4.1

hereof has been preserved or restored or replaced on each side of each unit of Rolling Stock and that the identifying reporting mark and the appropriate Road Number have been preserved or restored or replaced on each side of each such unit, and (iv) such other information regarding the location, condition and state of repair of all Locomotives as the Authority may reasonably request.

Section 4.6. Further Identification of Collateral. The Commission, Atlantic and the Railroad will furnish to the Authority from time to time statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as the Authority may reasonably request.

Section 4.7. Notices. The Commission, Atlantic and the Railroad will advise the Authority promptly and in reasonable detail, (i) of any lien, security interest, encumbrance or claim made or asserted against any of the Collateral, (ii) of any material change in the composition of the Collateral, and (iii) of the occurrence of any other event which would have a material effect on the aggregate value of the Collateral or on the security interests granted to the Authority in this Security Agreement.

Section 4.8. Change of Law. The Commission, Atlantic and the Railroad each shall promptly:

(i) notify the Authority of any change in law known to it (and will use its best efforts to become aware of any such change in law) which (A) adversely affects or will adversely affect the validity, perfection or priority of the security interests granted hereby, (B) requires or will require a change in the procedures to be followed in order to maintain and protect such validity, perfection and priority or (C) could result in the Authority not having a perfected security interest in any of the Collateral;

(ii) furnish the Authority with an opinion of outside legal counsel satisfactory to the Authority setting forth the procedures to be followed in order (A) to avoid (or to minimize if avoidance is impossible) such adverse effect, (B) to maintain and protect such validity, perfection and priority or (C) to assure that the Authority has perfected security interests in all of the Collateral; and

(iii) follow the procedures set forth in such opinion of counsel.

ARTICLE V
REMEDIES; RIGHTS UPON DEFAULT

Section 5.1. Events of Default. The occurrence of an Event of Default as defined in the Loan Agreement shall constitute an "Event of Default" under this Security Agreement.

Section 5.2. UCC Rights. If any Event of Default shall have occurred, the Authority may in addition to all other rights and remedies granted to it in this Security Agreement and in any other instrument or agreement securing, evidencing or relating to the Secured Indebtedness, exercise all rights and remedies of a secured party under the UCC and all other rights available to the Authority at law or in equity.

Section 5.3. Payments on Collateral. Without limiting the rights of the Authority under any other provision of this Security Agreement or any of the other Local Bond Documents, if an Event of Default shall occur and be continuing:

(i) all payments received by the Commission, Atlantic or the Railroad under or in connection with any of the Collateral shall be held by such party in trust for the Authority, shall be segregated from other funds of such party and shall forthwith upon receipt by such party be turned over to the Authority, in the same form as received by the such party (duly endorsed to the Authority, if required to permit collection thereof by the Authority); and

(ii) all such payments received by the Authority (whether from the Commission, Atlantic or the Railroad or otherwise) may, in the sole discretion of the Authority, be held by the Authority as collateral security for, and/or then or at any time thereafter applied in whole or in part by the Authority to the payment of the expenses and Secured Indebtedness as set forth in Section 5.11.

Section 5.4. Possession of Collateral. In furtherance of the foregoing, the Commission, Atlantic and the Railroad each expressly agrees that, if an Event of Default shall occur and be continuing, the Authority may (i) by judicial process, or without judicial process if it can be done without breach of the peace, enter any premises where any of such Collateral is or may be located, and without charge or liability to the Authority seize and remove such Collateral from such premises and (ii) have access to and use of the Commission's, Atlantic's and the Railroad's books and records relating to such Collateral.

Section 5.5. Sale of Collateral.

(a) The Commission, Atlantic and the Railroad each expressly agrees that if an Event of Default shall occur and be continuing, the Authority, without demand of performance or other demand or notice of any kind (except the notice specified below of the time and place of any public or private sale) to the Commission, Atlantic or the Railroad or any other person (all of which demands and/or notices are hereby waived by the Commission, Atlantic and the Railroad), may forthwith collect, receive, appropriate and realize upon the Collateral and/or forthwith sell, lease, assign, give an option or options to purchase or otherwise dispose of and deliver the Collateral (or contract to do so) or any part thereof in one or more parcels at public or private sale, at any exchange, broker's board or at any office of the Authority or elsewhere in such manner as is commercially reasonable and as the Authority may deem best, for cash or on credit or for future delivery without assumption of any credit risk. The Authority shall have the right upon any such public sale, and, to the extent permitted by law, upon any such private sale, to purchase the whole or any part of the Collateral so sold. The Commission, Atlantic and the Railroad each further agrees, at the Authority's request, to assemble the Collateral, and to make it available to the Authority at places which the Authority may reasonably select. To the extent permitted by applicable law, the Commission, Atlantic and the Railroad each waives all claims, damages and demands against the Authority arising out of the foreclosure, repossession, retention or sale of the Collateral.

(b) Unless the Collateral threatens to decline speedily in value or is of a type customarily sold in a recognized market, the Authority shall give the Commission, Atlantic and the Railroad ten (10) days written notice of its intention to make any such public or private sale or sale at a broker's board or on a securities exchange. Such notice shall (i) in the case of a public sale, state the time and place fixed for such sale, (ii) in the case of a sale at a broker's board or on a securities exchange, state the board or exchange at which such sale is to be made and the day on which the Collateral, or any portion thereof being sold, will first be offered for sale and (iii) in the case of a private sale, state the day after which such sale may be consummated. The Authority shall not be required or obligated to make any such sale pursuant to any such notice. The Authority may adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for the sale, and such sale may be made at any time or place to which the same may be so adjourned. In any sale of all or any part of the Collateral for credit or for future delivery, the Collateral so sold may be retained by the Authority until the selling price is paid by the purchaser

thereof, but the Authority shall not incur any liability if such purchaser fails to pay for the Collateral so sold and, after such failure, such Collateral may again be sold upon like notice.

Section 5.6. Rights of Purchasers. Upon any sale of the Collateral (whether public or private), the Authority shall have the right to deliver, assign and transfer to the purchaser thereof the Collateral so sold. Each purchaser (including the Authority) at any such sale shall hold the Collateral so sold free from any claim or right of whatever kind, including any equity or right of redemption of the Commission, Atlantic and the Railroad, and the Commission, Atlantic and the Railroad each, to the extent permitted by law, hereby specifically waives all rights of redemption, including, without limitation, the right to redeem the Collateral under Section 9-506 of the UCC, and any right to a judicial or other stay or approval which it has or may have under any law now existing or hereafter adopted.

Section 5.7. Additional Rights of the Authority.

(a) The Authority shall have the right and power to institute and maintain such suits and proceedings as it may deem appropriate to protect and enforce the rights vested in it by this Security Agreement and may proceed by suit or suits at law or in equity to enforce such rights and to foreclose upon and sell the Collateral or any part thereof pursuant to the judgment or decree of a court of competent jurisdiction.

(b) The Authority shall, to the extent permitted by law and without regard to the solvency or insolvency at the time of any person then liable for the payment of any of the Secured Indebtedness or the then value of the Collateral, and without requiring any bond from any party to such proceedings, be entitled to the appointment of a special receiver or receivers (who may be the Authority) for the Collateral or any part thereof and for the rents, issues, tolls, profits, royalties, revenues and other income therefrom, which receiver shall have such powers as the court making such appointment shall confer, and to the entry of an order directing that the rents, issues, tolls, profits, royalties, revenues and other income of the property constituting the whole or any part of the Collateral be segregated, sequestered and impounded for the benefit of the Authority, and the Commission, Atlantic and the Railroad irrevocably consent to the appointment of such receiver or receivers and to the entry of such order.

Section 5.8. Remedies Not Exclusive.

(a) No remedy conferred upon or reserved to the Authority in this Security Agreement is intended to be exclusive of any other remedy or remedies, but every such remedy shall be

cumulative and shall be in addition to every other remedy conferred herein or now or hereafter existing at law, in equity or by statute.

(b) If the Authority shall have proceeded to enforce any right, remedy or power under this Security Agreement and the proceeding for the enforcement thereof shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Authority, the Commission, Atlantic and the Railroad and the Authority shall, subject to any determination in such proceeding, severally and respectively be restored to their former positions and rights under this Security Agreement, and thereafter all rights, remedies and powers of the Authority shall continue as though no such proceedings had been taken.

(c) All rights of action under this Security Agreement may be enforced by the Authority without the possession of any instrument evidencing any Secured Indebtedness or the production thereof at any trial or other proceeding relative thereto, and any suit or proceeding instituted by the Authority shall be brought in its name and any judgment shall be held as part of the Collateral.

Section 5.9. Waiver and Estoppel.

(a) The Commission, Atlantic and the Railroad each, to the extent it may lawfully do so, agrees that it will not at any time in any manner whatsoever claim or take the benefit or advantage of any appraisal, valuation, stay, extension, moratorium, turnover or redemption law, or any law now or hereafter in force permitting it to direct the order in which the Collateral shall be sold which may delay, prevent or otherwise affect the performance or enforcement of this Security Agreement, and the Commission, Atlantic and the Railroad each hereby waives the benefits or advantage of all such laws, and covenants that it will not hinder, delay or impede the execution of any power granted to the Authority in this Security Agreement but will permit the execution of every such power as though no such law were in force; provided that nothing contained in this Section 5.9 shall be construed as a waiver of any rights of the Commission, Atlantic and the Railroad under any applicable federal bankruptcy law.

(b) The Commission, Atlantic and the Railroad each, to the extent it may lawfully do so, on behalf of itself and all who may claim through or under it, including without limitation any and all subsequent creditors, vendees, assignees and lienors, waives and releases all rights to demand or to have any marshalling of the Collateral upon any sale, whether made under any power of sale granted herein or pursuant to judicial proceedings or upon any foreclosure or any enforcement of this

Security Agreement and consents and agrees that all the Collateral may at any such sale be offered and sold as an entirety.

(c) The Commission, Atlantic and the Railroad each, to the extent it may lawfully do so, waives presentment, demand, protest and any notice of any kind (except notices explicitly required hereunder) in connection with this Security Agreement and any action taken by the Authority with respect to the Collateral.

Section 5.10. Power of Attorney. The Commission, Atlantic and the Railroad each hereby irrevocably constitutes and appoints the Authority, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of the Commission, Atlantic or the Railroad (as the case may be) and in the name of the Commission, Atlantic or the Railroad (as the case may be) or in its own name, from time to time in the Authority's reasonable discretion to carry out the terms of this Security Agreement, to take any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to accomplish the purposes of this Security Agreement and, without limiting the generality of the foregoing, hereby gives the Authority the power and right, on behalf of the Commission, Atlantic or the Railroad (as the case may be), without notice to or assent by the Commission, Atlantic or the Railroad to do the following:

(i) to pay or discharge taxes, liens, security interests or other encumbrances levied or placed on or threatened against the Collateral;

(ii) to effect any repairs or any insurance called for by the terms of this Security Agreement and to pay all or any part of the premiums therefor and the costs thereof; and

(iii) upon the occurrence and continuance of any Event of Default and otherwise to the extent provided in this Security Agreement, (A) to direct any party liable for any payment under any of the Collateral to make payment of any and all moneys due and to come due thereunder directly to the Authority or as the Authority shall direct; (B) to receive payment of and receipt for any and all moneys, claims and other amounts due and to become due at any time in respect of or arising out of any Collateral; (C) to sign and indorse any invoices, freight or express bills, bills of lading, storage or warehouse receipts, drafts against debtors, assignments, verifications and notices in connection with accounts and other documents relating to the Collateral; (D) to commence and prosecute any suits, actions or proceedings at law or

in equity in any court of competent jurisdiction to collect the Collateral or any thereof and to enforce any other right in respect of any Collateral; (E) to defend any suit, action or proceeding brought against the Commission, Atlantic or the Railroad with respect to any Collateral; (F) to settle, compromise and adjust any suit, action or proceeding described above and, in connection therewith, to give such discharges or releases as the Authority may deem appropriate; (G) generally to sell, transfer, pledge, make any agreement with respect to or otherwise deal with any of the Collateral as fully and completely as though the Authority were the absolute owner thereof for all purposes, and to do, at the Authority's option and the Commission's, Atlantic's and the Railroad's expense, at any time, or from time to time, all acts and things which the Authority deems necessary to protect, preserve or realize upon the Collateral and the Authority's security interest therein, in order to effect the intent of this Security Agreement, all as fully and effectively as the Commission, Atlantic or the Railroad might do.

The Commission, Atlantic and the Railroad each hereby ratifies all that said attorneys shall lawfully do or cause to be done by virtue hereof. This power of attorney is a power coupled with an interest and shall be irrevocable.

Section 5.11. Application of Proceeds. The Authority shall retain the net proceeds of any collection, recovery, receipt, appropriation, realization or sale of the Collateral and, after deducting all reasonable costs and expenses of every kind incurred therein or incidental to the care and safekeeping of any or all of the Collateral or in any way relating to the rights of the Authority hereunder, including reasonable attorneys' fees and legal expenses, and except as otherwise expressly provided in this Security Agreement apply such net proceeds to the payment in whole or in part of the Secured Indebtedness in such order as the Authority may elect, the Commission remaining liable for any amount remaining unpaid (and any attorneys fees paid by the Authority in collecting such deficiency) after such application. Only after applying such net proceeds and after the payment by the Authority of any other amount required by any provision of law, including Section 9-504(1)(c) of the UCC, need the Authority account for the surplus, if any, to the Commission or to whomsoever may be lawfully entitled to the same.

ARTICLE VI MISCELLANEOUS

Section 6.1. Notices. Unless otherwise specified herein, all notices, requests or other communications to any party hereunder shall be in writing and given in accordance with Section 11.6 of the Loan Agreement. Each such notice, request or other communication shall be effective (i) if given by mail, three (3) days after such communication is deposited, certified or registered, in the mails with first class postage prepaid, addressed as set forth in Section 11.6 of the Loan Agreement or (ii) if given by other means, when delivered at the address specified in Section 11.6 of the Loan Agreement.

Section 6.2. No Waivers. No failure on the part of the Authority to exercise, no course of dealing with respect to, and no delay in exercising any right, power or privilege under this Security Agreement or any document or agreement contemplated hereby shall operate as a waiver thereof nor shall any single or partial exercise of any such right, power or privilege preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

Section 6.3. Compensation and Expenses of the Authority. The Commission shall pay to the Authority from time to time upon demand, all of the fees, costs and expenses incurred by the Authority (including, without limitation, the reasonable fees and disbursements of counsel and any amounts payable by the Authority to any of its agents, whether on account of fees, indemnities or otherwise) (i) arising in connection with the preparation, administration, modification, amendment, waiver or termination of this Security Agreement or any document or agreement contemplated hereby or any consent or waiver hereunder or thereunder or (ii) incurred in connection with the administration of this Security Agreement, or any document or agreement contemplated hereby, or in connection with the administration, sale or other disposition of Collateral hereunder or under any document or agreement contemplated hereby or the preservation, protection or defense of the rights of the Authority in and to the Collateral.

Section 6.4. Successors and Assigns. This Security Agreement shall be binding upon and inure to the benefit of each of the parties hereto and shall inure to the benefit of the Authority's successors and assigns. Nothing herein is intended or shall be construed to give any other person any right, remedy or claim under, to or in respect of this Security Agreement or any Collateral.

Section 6.5. Limitation of Law; Severability.

(a) All rights, remedies and powers provided in this Security Agreement may be exercised only to the extent that the exercise thereof does not violate any applicable provision of

law, and all the provisions of this Security Agreement are intended to be subject to all applicable mandatory provisions of law which may be controlling and to be limited to the extent necessary so that they will not render this Security Agreement invalid, unenforceable in whole or in part, or not entitled to be recorded, registered or filed under the provisions of any applicable law.

(b) If any provision hereof is invalid and unenforceable in any jurisdiction, then, to the fullest extent permitted by law, (i) the other provisions hereof shall remain in full force and effect in such jurisdiction and shall be liberally construed in order to carry out the intentions of the parties hereto as nearly as may be possible; and (ii) the invalidity or unenforceability of any provision hereof in any jurisdiction shall not affect the validity or enforceability of such provisions in any other jurisdiction.

Section 6.6. Governing Law. Except to the extent preempted by federal law and regulations, this Security Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Virginia.

Section 6.7. Counterparts; Effectiveness. This Security Agreement may be signed in any number of counterparts with the same effect as if the signatures thereto and hereto were upon the same instrument. This Security Agreement shall become effective when the Authority shall receive counterparts executed by itself and the Commission, Atlantic and the Railroad.

Section 6.8. Termination; Survival. This Security Agreement shall terminate when the security interests granted hereunder have terminated and the Collateral has been released as provided in Section 2.3.

Section 6.9. Payments and Rights Assigned. The Commission, Atlantic and the Railroad each consents to the Authority's assignment to the Trustee under Article II of the Indenture of the Authority's rights under this Security Agreement (except for the Unassigned Rights). The Commission, Atlantic and the Railroad each agrees to pay directly to the Trustee all amounts payable by the Commission, Atlantic or the Railroad to the Authority under this Security Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Security Agreement to be duly executed by their respective authorized officers as of the day and year first written above.

ACCOMACK-NORTHAMPTON
TRANSPORTATION DISTRICT
COMMISSION

By: _____

Its: _____

CANONIE ATLANTIC CO.

By: _____

Its: _____

EASTERN SHORE RAILROAD, INC.

By: _____

Its: _____

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STATE OF Virginia)
COUNTY OF) SS.:
CITY OF Richmond)

On this 26 day of December, 1990, before me personally came JT Holland, who being by me duly sworn, did depose and say: that he resides in Northampton Co., that he is the Chairman of Accomack Northampton Transportation District Commission the Commission described in and which executed the foregoing instrument; that he knows the seal of said Commission; that the seal affixed is said Commission seal, that it was so affixed by order of the members of said Commission and that he signed his name thereto by like order.

Donna R. Rush
Notary Public

STATE OF Virginia)
COUNTY OF) SS.:
CITY OF Richmond)

On this 26 day of December, 1990, before me personally came JT Holland, who being by me duly sworn, did depose and say: that he resides in Northampton County, that he is the President of Canonie Atlantic Co., the corporation described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed is said corporate seal, that it was so affixed by order of the Board of Directors of said corporation and that he signed his name thereto by like order.

Donna R. Rush
Notary Public

STATE OF Virginia)
COUNTY OF) SS.:
CITY OF Richmond)

On this 26 day of December, 1990, before me personally came JT Holland, who being by me duly sworn, did depose and say: that he resides in Northampton County, that he is the President, of Eastern Shore Railroad Inc, the railroad described in and which executed the foregoing instrument; that he knows the seal of said railroad; that the seal affixed is said railroad seal, that it was so affixed by order of the board of said railroad and that he signed his name thereto by like order.

Donna R. Rusk
Notary Public

Schedule 1

Required Filings and Recordings

An executed copy of this Security Agreement shall be filed with Secretary, U.S. Interstate Commerce Commission, Washington, D.C.

Financing Statement covering the Proceeds of the Rolling Stock shall be filed with the Virginia State Corporation Commission, the Maryland Department of Assessment and Taxation, and the Clerk of the Circuit Courts of the City of Virginia Beach, Virginia, the City of Norfolk, Virginia, Accomack County, Virginia, Northampton County, Virginia, and Worcester County, Maryland.

An executed copy of the Assignment to Trustee in the form attached as Exhibit A to this Schedule 1 shall be filed with Secretary, U.S. Interstate Commerce Commission, Washington, D.C.